

To Winston Hickox, Chair, California Market Advisory Committee:

The Southern California Public Power Authority ("SCPPA") Greenhouse Gas Working Group would like to present several concerns and concepts to the Market Advisory Committee. The members of the SCPPA Working Group are the following publicly owned utilities: City of Anaheim, City of Azusa, City of Banning Electric Utility, Burbank Water and Power, City of Cerritos, Glendale Water and Power, Pasadena Department of Water and Power, and City of Riverside. We hope that the Committee will consider our views as it prepares the draft recommendation that we understand will be circulated on or about June 1, 2007.

First, we believe that the burden of meeting the statewide targets for reducing greenhouse gas ("GHG") emissions should be equitably allocated among the various sectors without disproportionately burdening a particular sector. An equitable allocation should take into account each sector's historic, current, and forecasted contribution to the state's overall GHG footprint. Further, an equitable allocation should take into account early action GHG reduction efforts that are being undertaken within each sector, and the allocation methodology should reflect the current and reasonably expected future availability of emission reduction technologies and associated costs.

Second, while we are familiar with cap and trade models and believe that a properly designed cap and trade program should be considered as a component of a statewide greenhouse gas emission reduction program, we are concerned about suggestions that the initial allocation of emission allowances should be based on an auction. An auction, regardless of design, could result in the imposition of substantial costs on electric ratepayers and their communities. Although an auction of emission allowances may be appropriate in some circumstances for some sectors, our initial view is that it is inappropriate for the electric sector, particularly if there is going to be a load-based approach to allocating responsibility for meeting electric sector GHG emission reduction targets as has been proposed by the California Public Utilities Commission. We recommend consideration of a direct allocation of emission allowances to load serving entities within the electric sector, including publicly owned utilities.

Third, we believe that any protocol for directly allocating emission allowances within the electric sector should not disproportionately burden or favor some utilities over others, regardless of whether they are faster growing or slower growing or whether their current emissions profile per kwh is heavier or lighter. An allocation that is based exclusively on emissions could favor slower growing utilities or utilities that have a heavier current carbon footprint, while an allocation that is based exclusively on load could favor faster growing utilities or utilities that currently have a light carbon footprint.

We suggest for your consideration a hybrid approach that would be fair to emission-heavy and slower growth utilities while also being fair to emission-light and faster growing utilities. At the outset of the allowance program, allowances would be granted primarily on the basis of historical emissions, but the proportion of allowances that are emission-based would decline over time. Conversely, at the outset, few allowances would be granted on the basis of load, but the

proportion of load-based allowances would increase over time. Over the course of, for example, 30 years, the total number of allowances would decrease, the proportion of emission-based allowances would decrease, and the proportion of load-based allowances would increase:

This hybrid proposal appears to us to be more equitable to all utilities--emission-heavy vs. emission-light and slow growth vs. faster growth--than other models that we have seen. Accordingly, we recommend that you consider the hybrid approach to allocating allowances. We hope that you find a place for it in your June 1 draft recommendations. Please do not hesitate to contact me if further details about the hybrid approach would be of assistance to the Committee.

Thank you for providing us with this opportunity to express our views to you.

Respectfully,

Norman Pedersen for the SCPPA GHG Working Group